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Investment Programs and Sales Expectations in 1953

BUSINESS expectations of higher sales volume in 1953 are accompanied by continued large programs of fixed capital facilities expansion.

Construction of new plant and new equipment purchases are now scheduled to total $27.0 billion, 2 percent and 6 percent, respectively, above 1952 and 1951. After allowance for the moderate rise in capital goods prices during this period, there appears to be little difference between the anticipated physical volume of facilities acquisition in 1953 and in either of the past 2 years. Realization of this year's programs would mark the third successive year of real fixed investment some one-fourth above the immediate pre-Korean rate.

By major industries, public utilities have scheduled the largest expansion in capital outlays from 1952 to 1953—14 percent—while mining companies' plans are 3 percent higher. Railroads, on the other hand, have programed a reduction of 7 percent from last year's rate of capital additions. Manufacturers, nonrail transport companies and other major groups expect to at least maintain 1952 fixed investment rates.

Associated with these capital budgets, every major industry expects greater sales in 1953 than in 1952. Both anticipated fixed investment and sales for the full year 1953 are generally close to seasonally adjusted annual rates prevailing at the beginning of this year.

While all size classes of firms expect sales increases from 1952, the larger companies generally anticipate the greater relative gains. All size groups expect in 1953 to continue capital outlays at their high 1952 rates.

Investment During 1953

The survey indicates that capital spending is scheduled at seasonally adjusted annual rates of $27.8 billion in the first half of this year. Comparison of this rate with programs for the full year implies a lowering in the rates of fixed investment of almost 6 percent between the first and second half of 1953. The imputed rate for the final 6 months, however, is probably understated relative to earlier months due to the tendency for under reporting to increase with the period of forward planning. This factor has been found in all previous surveys.

The experience in these earlier annual surveys, taken in conjunction with the current survey, suggests that the anticipated rates of aggregate capital spending would be about the same in the first and second half of this year. Manufacturers' programs indicate some decline in the final 6 months, while continued strength is evident in mining, nonrail transportation, and the commercial group.

1953 programs increased

The present survey corroborates and strengthens the finding in a similar survey conducted last October that business is planning in 1953 to continue plant and equipment expenditures at a high rate. Programs now reported are higher by 5 percent than those earlier contemplated. Increases are reported by almost all industries.

While a moderate rise in capital goods prices between the two survey periods may account for a small part of the rise in investment programs, more important factors are probably the substantial recent increase in economic activity and the greater completeness and firming of 1953 programs now as compared to last October.

Defense facilities nearing goals

Current programs do not show the clear-cut divergence in spending patterns between defense and nondefense industries which characterized fixed investment in 1952. Most of the capital expansion last year occurred in defense-supporting industries—with most nondefense groups cutting back from, or maintaining, 1951 fixed investment rates.

Expected trends this year are mixed—with expanding and contracting programs evident in each area. Large reductions in projected capital outlays are found in a few defense industries—particularly primary metals and transportation equipment (other than autos)—where expansion programs are well advanced, while such industries as electric power, chemicals and petroleum indicate no slackening in capital growth rates.

Reported programs in these defense sectors reflect the progress of facilities expansion under certificates of necessity. Holders of $23 billion of certificates issued through last September indicated that three-fifths of the value of these facilities would be in place on December 31, 1952. By industries, the proportions were about 45 percent for petroleum refining and slightly over 50 percent in chemicals and electric power. Certificated programs in iron and steel, on

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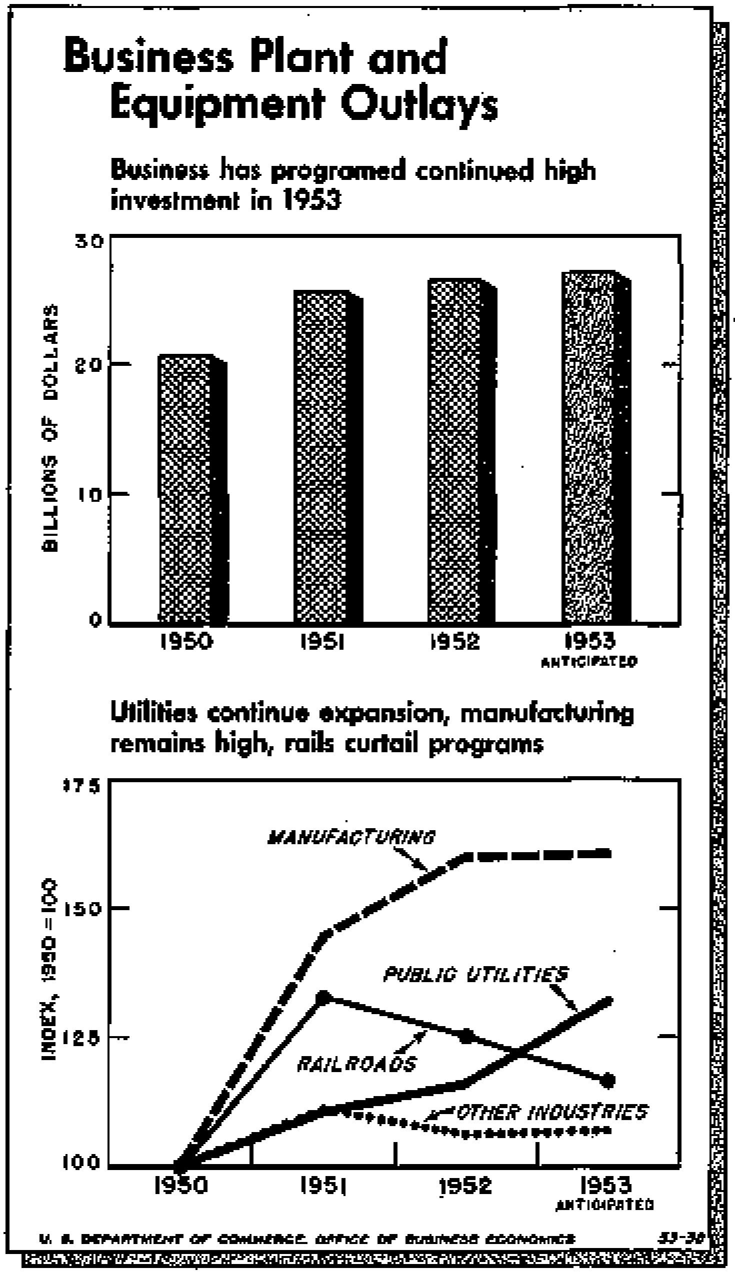
the other hand, were two-thirds in place, and in aircraft were about 85 percent complete.

Quarterly trends

Actual capital expenditures in the fourth quarter of 1952 amounted to $27.0 billion at seasonally adjusted annual rates—about 6 percent above the strike-affected third quarter, but only slightly above rates in the first half of last year and the latter half of 1951.



Outlays in the first 2 quarters of this year are scheduled at annual rates of $27.5 billion and $28 billion. The expansion in scheduled outlays in the first half of this year is attributable primarily to the utilities and to manufacturing companies. Anticipated capital expenditures by the railroads are also up somewhat, while plans of other major industries show little change from 1952 rates.

Both durable and nondurable goods producers were contributing to the seasonally adjusted rise in capital outlays anticipated by manufacturers in early 1953. Textile, fabricated metal, and primary metal companies were the only manufacturing groups whose first-half programs indicated a slackening rate of fixed investment.

Realization of 1952 investment programs

Expenditures for new plant and equipment in 1952 totaled $26.5 billion compared to outlays programed in the early part of 1952 of $26.2 billion.[1] Although the total outlays for all business in 1952 were practically the same as anticipated in early 1952, there was considerable variation in experience among the various industry groups. Manufacturing companies' expenditures were slightly more than planned, while those of the commercial group were up 8 percent. All the other major groups were below beginning-of-year estimates—public utilities by 3 percent, railroads by 6 percent, and mining by 11 percent.

Within manufacturing, practically all the nondurable goods industries underestimated their outlays and some of the durable goods industries fell short. But expenditures by the iron and steel, nonferrous metals and petroleum refining industries deviated very little from the amounts programed a year ago. Chemical and textile companies made outlays within 5 percent of first-of-year anticipations while the nonelectrical machinery, motor vehicle, paper and beverage groups were off planned rates by amounts ranging up to 10 percent.

As in past surveys the larger manufacturing companies were considerably more accurate in their anticipations than the smaller companies. Corporations with assets of $5 million or more invested 4 percent less than the amounts scheduled a year ago. The smaller companies' estimates of expenditures were considerably exceeded in actual performance.

Manufacturers' investment programs

In 1953, manufacturers are anticipating $12.0 billion of capital outlays—about the same as in 1952 in physical volume as well as dollar amounts. In 1951, expenditures totaled $10.9 billion while the pre-Korean peak—1948—saw manufacturers' expenditures of $9.1 billion.

Manufacturing outlays are expected to reach a high in the first half of 1953—a seasonally adjusted rate of almost $13 billion. While this implies a decline in the second half of the year, it should be noted that recurrence of the systematic understatement noted earlier in second half programs might considerably reduce the anticipated decline.

Industrial patterns

In the 1951–52 period the major stress in industrial expansion had generally been to provide needed additional capacity for defense production. This year, however, the character of plant and equipment expenditures appears to be changing. Some defense industries have begun to show declines. Some nondefense industries are showing increases after curtailing expenditures during the defense buildup, while other industries with both defense and nondefense characteristics are continuing to expand.

[1] The anticipated figure of $24.1 billion as reported in March 1952 has been adjusted to take into account the upward revision of the nonmanufacturing series (see SURVEY, August 1952) and the revision of the estimates for 1951 presented in this article and described below. This adjustment has been made by applying the anticipated relative change from 1951 to 1952 in each industry to the revised 1951 estimate.

Reflecting this situation, 1953 finds durable-goods industries expecting a 5 percent decline from last year's capital expenditures offset by an increase of the same magnitude planned by nondurable-goods industries. The durable goods group also primarily accounts for the slackening in manufacturers' projected investment rates in the latter half of this year.

The iron and steel and nonferrous metals industries account for most of the expected reduction in outlays by durable goods producers. Iron and steel companies, after a record expenditure in 1952, are dropping their 1953 programs by 12 percent, while nonferrous metals firms are reducing outlays by 11 percent. Last year the nonferrous metals industry almost doubled its 1951 expenditures.

Nonauto transportation equipment companies have scheduled 1953 outlays at 16 percent below last year, the stone, clay and glass group expects a 15 precent drop and fabricated metal products a decline of 8 percent. The machinery groups are the only durable goods industries planning substantial increases in outlays in 1953—an 18 percent rise by electrical machinery companies and a 7 percent rise by other machinery firms. Other major durable goods industries, including motor vehicles, expect little change in outlays from 1952 rates.

Petroleum refiners and chemical companies are largely responsible for the increase in fixed investment planned by nondurable goods industries. These two industries, having

Table I.—Expenditures on New Plant and Equipment by United States Business,[1] 1950–53

[Millions of dollars]

	1950	1951	1952	1953[2]	1951				1952				1953	
					I	II	III	IV	I	II	III	IV	I[2]	II[2]
Manufacturing	7,491	10,852	11,994	12,038	2,107	2,749	2,730	3,264	2,650	3,168	2,820	3,367	3,028	3,163
Durable goods industries	4,135	5,168	5,784	5,523	962	1,248	1,351	1,607	1,307	1,405	1,358	1,654	1,427	1,487
Primary iron and steel	600	1,108	1,539	1,360	181	202	310	436	310	410	334	470	288	343
Primary nonferrous metals	124	310	605	529	51	70	78	111	125	141	168	103	130	126
Fabricated metal products	350	433	365	338	105	111	103	114	86	90	77	100	90	88
Electrical machinery and equipment	246	373	370	444	60	94	92	116	83	92	83	114	92	103
Machinery, except electrical	411	682	772	822	124	152	185	222	173	187	174	238	211	220
Motor vehicles and equipment	610	851	890	873	100	224	230	230	104	214	241	247	229	(5)
Transportation equipment, except motor vehicles	82	219	253	211	54	52	93	71	70	72	46	68	62	58
Stone, clay and glass products	280	397	318	270	77	102	102	110	84	80	73	80	62	(5)
Other durable goods[3]	524	704	682	697	158	162	174	100	168	170	160	179	174	204
Nondurable goods industries	4,356	5,684	6,210	6,516	1,195	1,495	1,387	1,607	1,343	1,501	1,463	1,713	1,601	1,707
Food and kindred products	523	679	540	500	142	162	130	140	124	145	123	128	125	130
Beverages	237	274	245	235	78	75	63	58	48	61	64	73	57	62
Textile mill products	450	521	400	314	122	157	124	128	109	110	87	93	78	70
Paper and allied products	327	420	364	290	93	100	107	111	82	87	80	96	88	109
Chemicals and allied products	771	1,247	1,451	1,571	247	320	309	302	317	306	358	410	391	423
Petroleum and coal products	1,537	2,103	2,596	2,859	373	513	532	684	513	747	592	746	693	700
Rubber products	102	150	139	134	33	36	34	40	38	30	34	34	32	33
Other nondurable goods[4]	359	292	494	409	108	110	82	70	108	136	110	134	123	111
Mining	707	929	860	910	194	342	241	252	217	228	205	229	206	213
Railroad	1,111	1,474	1,391	1,294	304	394	354	422	340	380	288	387	335	396
Transportation, other than rail	1,212	1,490	1,353	1,250	354	415	375	346	356	372	302	325	304	315
Public utilities	3,300	3,664	3,838	4,362	720	897	983	1,065	821	926	947	1,142	1,030	1,199
Communications	1,104	1,319	1,698	7,0[illegible]	1,737	1,811	1,814	1,874	1,737	1,738	1,690	1,835	1,630	1,832
Commercial and other[5]	5,671	5,916	5,391											
All industries	20,605	25,644	26,455	26,991	5,405	6,602	6,505	7,173	6,141	6,808	6,244	7,265	6,541	6,968
					Seasonally adjusted at annual rates [Billions of dollars]									
Manufacturing					9.69	10.03	11.30	11.69	11.78	12.24	11.04	12.23	12.78	12.90
Mining					.83	.96	.90	.90	.93	.90	.83	.87	.84	.81
Railroads					1.29	1.47	1.52	1.60	1.50	1.44	1.24	1.32	1.31	1.48
Transportation, other than rail					1.43	1.62	1.68	1.43	1.44	1.36	1.27	1.28	1.22	1.16
Public utilities					3.39	3.62	3.65	3.73	3.82	3.75	3.71	4.04	4.55	4.34
Commercial and other[4]					7.23	7.27	7.28	7.15	7.19	6.89	6.80	7.12	6.88	6.75
All industries					23.74	25.47	26.49	26.58	26.72	26.68	25.41	26.96	27.54	28.07

1 Data exclude expenditures of agricultural business and outlays charged to current account. Estimates after 1950 have been revised.

2 Estimates for the year 1953 and for the first and second quarters of 1953 are based on anticipated capital expenditures as reported by business in February and March, 1953. Seasonally adjusted data for these quarters are also adjusted when necessary for systematic tendencies in anticipatory data.

3 Includes lumber products, furniture and fixtures, instruments, ordnance and miscellaneous manufactures.

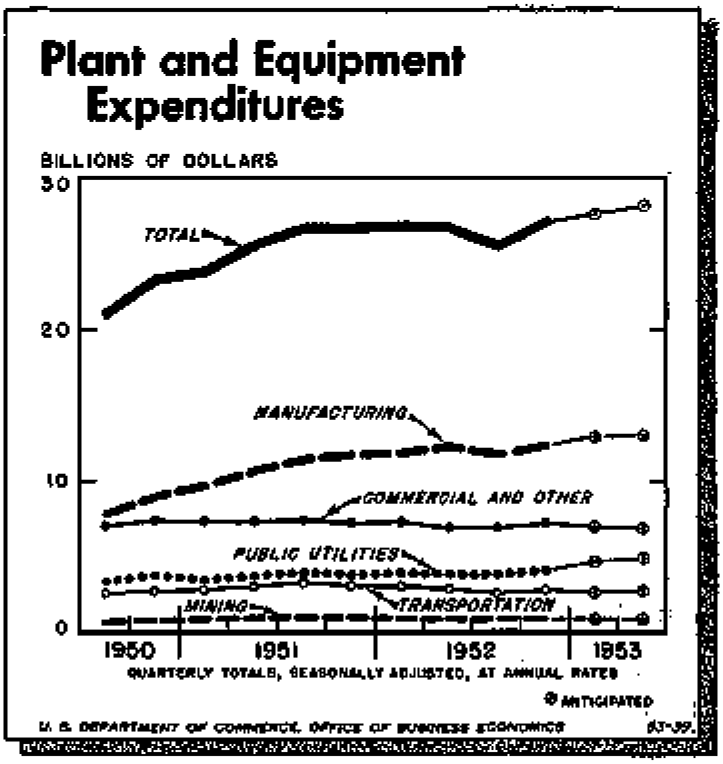
4 Includes apparel and related products, tobacco, leather and leather products and printing and publishing.

5 Includes trade, service, finance, communication and construction.

5 Data not available separately but are included in totals.

Sources: U. S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

both defense and secular growth characteristics, are continuing to expand, reflecting in part the development of new products. The petroleum industry is scheduling a record $2.9 billion of outlays for 1953, a 10 percent increase, while chemical companies are planning an 8 percent rise. The beverage industry and the paper industry have programed outlays at 16 percent and 7 percent above 1952, respectively. Textile firms are showing the only substantial decline among nondurable goods industries, while the other groups plan to maintain last year's rates of fixed investment.



Utilities expansion to continue in 1953

Capital outlays by electric and gas utilities are being scheduled at a record $4.4 billion for 1953 compared with $3.8 billion last year and $3.7 billion in 1951. The more than $500 million rise in 1953 over 1952 is equal to the expected increase in outlays by all industries combined, even though utilities currently account for only about 15 percent of total nonfarm plant and equipment expenditures. It is interesting to note that utility outlays have risen continuously throughout the postwar period and that this industry's expenditures, unlike those of all other major industries, were not reduced during the downturn of 1949.

In 1952, the moderately increased rate of utility expenditures reflected a large expansion by electric utilities and an almost offsetting decline in outlays by gas companies. In 1953, however, anticipations show increases in both sectors, with electric utilities planning a 15-percent rise from 1952 in fixed investment expenditures and gas companies expecting an 11 percent increase.

Expenditures by communications companies programed in 1953 show little change from 1952. Expenditures by this industry increased sharply from 1951 to 1952 to the highest total since the 1948 peak.

Railroad outlays declining

Capital expenditures by railroads in 1953 are expected to be about 7 percent below expenditures last year. Present schedules indicate a continuing decline with the second half of this year lower than the first half. Outlays for 1953 are anticipated at $1.3 billion compared with $1.4 billion last year and a record $1.5 billion in 1951.

While a decline is expected in 1953 for the railroad group as a whole, on a regional basis a somewhat different picture is indicated. Eastern railroads expect to cut 1952 rates of outlay by close to 30 percent in 1953. However, western and southern railroads, which showed declines from 1951 to 1952, have initiated new programs which are expected to result in 1953 increases of 16 percent and 5 percent, respectively.

During 1953, there is a continuation of the trend starting in 1951 toward higher road expenditures and lower expenditures for equipment. In the first half of 1953 expenditures on equipment are expected to account for 71 percent of total investment compared with 75 percent and 77 percent, respectively, in the corresponding periods of 1952 and 1951. Deliveries of freight cars last year totaled 78,000 as against 96,000 in 1951, while unfilled orders at the end of last year amounted to only two-thirds of the backlog a year previously. Unfilled orders of locomotives declined relatively even more over the year.

Table 2.—Anticipated Changes in Sales, Selected Industries, 1952–53 [1]

Industry	Percent change in expectations, 1952 to 1953
Manufacturing	7
Durable goods industries	11
Primary iron and steel	15
Primary nonferrous metals	0
Fabricated metal products	8
Electrical machinery and equipment	14
Machinery except electrical	3
Motor vehicles and equipment	15
Transportation equipment, except motor vehicles	32
Stone, clay and glass products	6
Other durable goods	6
Nondurable goods industries	4
Food and kindred products	4
Beverages	6
Textile-mill products	0
Paper and allied products	4
Chemicals and allied products	7
Petroleum and coal products	3
Rubber products	6
Other nondurables	7
Mining	4
Transportation, other than rail	6
Public utilities	11

[1] These anticipations were reported by business during February and early March.

Sources: U. S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

Transportation companies other than railroads expect a small increase in expenditures in 1953 with a higher rate of investment planned for the second half. Pipelines, motor transportation, and water transportation companies are scheduling larger expansion programs for 1953. All these groups cut back their outlays in 1952 from 1951 rates. Airlines, after completing a substantial part of their expansion programs in 1952, are now planning reductions for 1953.

Revisions in capital expenditures data

The foregoing review is based on reports submitted in February and early March in the annual survey of plant and equipment expenditures and sales expectations conducted jointly by the Office of Business Economics and the Securities and Exchange Commission. Also presented in this article are revised data on capital outlays in the 1951–53 period.

The revised series encompass the now available capital expenditures data in the 1951 annual reports of essentially all corporations registered with the Securities and Exchange Commission, as well as an enlarged group of nonregistered manufacturers. The estimates for 1950 and earlier periods are not affected by this revision and are directly comparable to the revised 1951–53 figures. The relative quarter-to-quarter movements during 1951 and 1952 in the new series are not significantly different from the old series, although the annual estimates have been lowered by about 3 percent. For a detailed description of this series and its derivation, see technical notes in the articles in the December 1951 and August 1952 issues of the SURVEY.

1953 Sales Expectations

Businessmen are currently expecting to achieve the largest sales volume on record in 1953. Every major nonfarm industry anticipates higher sales in 1953 than last year, according to information collected from reporting companies in the current survey of capital budgets. In general, however, projected sales are quite close to current rates.

Among major industry groups, the largest relative increase in sales from 1952 to 1953 is anticipated by public utility companies—11 percent. Manufacturers project a sales volume in 1953 more than 7 percent higher than last year. Nonrail transport companies look forward to a more than 5 percent gain from 1952, while mining concerns foresee a sales rise of 4 percent.

Durables expect greater increases

Within manufacturing, the durable-goods group is expecting an 11 percent rise in sales from 1952, as compared with a 4 percent increase by nondurable-goods producers. The expectations of the latter group, however, imply an increase for the year as a whole of 5 percent from annual rates at the beginning of the year, while no further gain is indicated by the durable-goods sector.

Among durable-goods industries, the largest expected increases in sales from 1952 to 1953 are by automobile and nonautomotive transportation equipment producers—13 percent and 32 percent, respectively. Primary steel and electrical machinery companies are each anticipating sales 15 percent higher. Manufacturers of other hard goods are more moderate in their expected sales gains.

Relative to current sales volume, the greatest expansion in sales during the remainder of 1953 is anticipated by the nonautomotive transport group and by electrical machinery producers. It is of interest to note that recent orders trends have been quite strong in these industries.

In the nondurable-goods group, above-average expected sales increases this year are reported by chemical, rubber, beverage and tobacco companies. Petroleum, food and paper companies are looking toward 1953 sales about 3 or 4 percent higher than in 1952. Textile companies are the only major nondurable-goods group expecting only maintenance of last year's sales volume.

While all size-groups of manufacturers are expecting a higher sales volume this year, in about two-thirds of the major industry groups the larger companies anticipate the greater relative gain. In aggregate, manufacturers with assets of over $100 million are thinking in terms of a 12 percent increase in sales from 1952 to 1953, as compared to an expected increase of somewhat over 7 percent by all manufacturing companies combined.

Sales and fixed investment programs

In most years, it is found there is a general correspondence between near-term sales expectations and capital expenditures programs. This would be expected for many reasons, including considerations of projected output schedules and replacement and capacity requirements, and the importance of funds generated by sales in the financing of investment.

Such conformance between movements in sales and in fixed investment was especially strong in the earlier post-Korean period when defense programs stimulated both expansion and sales in some industries, while restricting both investment and output in others. The relationship between anticipated sales and fixed investment in 1953 is somewhat obscured by such factors as the near-completion of some very large defense expansion programs. In such industries as primary steel and nonautomotive transport equipment, for example, projected increases in sales are accompanied by large cutbacks in capital programs. In defense industries with less advanced expansion programs and in areas with underlying secular growth trends such as chemicals, petroleum and the public utilities there is a definite conformance in expectations.

In evaluating these results, it should be borne in mind that sales expectations of an individual concern are not so firm as fixed investment plans. Sales for a particular concern are to a large extent subject to external forces of demand. Investment decisions, on the other hand, although importantly influenced by the current demand for a company's products, are determined also by other independent considerations. Capital programs, in addition, involve commitments some time in advance.

In 1952, however, most industries were quite accurate in sales projections made early that year. The only significant deviation between anticipated and actual sales in 1952 occurred in the strike-affected steel industry which showed the largest sales decline of any industry. The nonautomotive transport equipment industry expected the largest relative sales increase from 1951 to 1952—50 percent—and actually experienced a gain of this magnitude. At the opposite extreme, textile companies anticipated the greatest sales decline—9 percent. Sales of this group did fall by that amount. Sales of most other manufacturing industries from 1951 to 1952 were within 3 percent of the group's expectations.